

PUBLIC DISCLOSURE

July 2, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

GRAFTON SUBURBAN CREDIT UNION

**86 WORCESTER STREET
NORTH GRAFTON, MA. 01536**

**DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Grafton Suburban Credit Union** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

The primary factors supporting the credit union's overall rating include:

Loan to deposit and share ratio: Grafton Suburban Credit Union's average net loan to deposit and share ratio of 55.4 percent is considered to meet the standards for satisfactory performance.

Credit extended Inside and Outside the assessment area: The credit union has extended an adequate percentage of loans within its assessment area. Approximately 77.3 percent of its HMDA reportable loans and 71.6 percent of its consumer loans were granted within its assessment area.

Distribution of Credit among Individual of Different Incomes: Grafton Suburban has effectively served individuals of all income levels as displayed by a good distribution of loans to low and moderate-income individuals. The credit union granted 18.8 percent of its residential and 53.4 percent (based on a sample) of its consumer loans to low and moderate-income borrowers.

Geographic Distribution of Loans: Residential lending reflected an adequate distribution given the demographic makeup of its assessment area and the lack of owner-occupied housing units in the low and moderate-income census tracts.

Response to Complaints and Fair Lending: The credit union has not received any CRA related complaints since the prior examination. Grafton Suburban's fair lending performance was found to be satisfactory at this time.

PERFORMANCE CONTEXT

Description of Institution

Grafton Suburban Credit Union was established as a state-chartered credit union in 1966 for those who live, work, and do business in the greater Grafton community and members of their families.

Grafton Suburban Credit Union operates three full service offices. The main office is located at 86 Worcester Road, Grafton. The two branch offices are located at 43 Main Street, South Grafton and 898 Grafton Street, Worcester. In addition, the credit union maintains ATMs located at all of its offices and a freestanding ATM at the location of the former main office at 5 Williams Street, Grafton. All ATMs are linked to the "NYCE," "MASTERCARD," "VISA," "PLUS," "DISCOVER," and "CIRRUS" networks. Banking hours are convenient and easily accessible to all customers, with extended hours on Thursdays, Fridays and Saturdays. The main office is located in an upper-income census tract.

As of March 31, 2002, Grafton Suburban Credit Union had approximately \$103.5 million in assets, with 44.6 percent of its assets in the form of loans. The types of credit offered by the credit union consist of residential real estate, home equity loans, personal secured and unsecured loans, home improvement loans, credit cards, new and used automobile and truck and recreational vehicle loans. Refer to the following table for further information.

Loan Portfolio as of March 31, 2002

Type of Loans	\$(000)	Percent
Loans Secured by Real Estate		
a. First Mortgage Real Estate Loans	27,945	60.6
b. Other Real Estate Loans	5,180	11.2
Subtotal -	33,125	71.8
Consumer Loans		
a. Unsecured Credit Card Loans/Lines of Credit	3,277	7.1
b. All Other Unsecured Loans	629	1.4
c. New Vehicle Loans	2,203	4.8
d. Used Vehicle Loans	6,580	14.2
Subtotal – Consumer Loans	12,689	27.5
All Other Loans		
Other	320	0.7
Total Loans	46,134	100.0

Source: Statement of Financial Condition as of 3/31/02

Grafton Suburban Credit union has direct competition within the immediate area from several local institutions including Millbury Federal Credit Union, Millbury Savings Bank, Sovereign Bank, Fleet National Bank, UniBank for Savings, as well as a number of regional and national mortgage companies.

The examiner used PCI Services, Inc., CRA Wiz, to generate aggregate HMDA reports when comparing Grafton Suburban Credit Union to other HMDA lenders throughout its assessment area. Other HMDA reporters include bank and non-bank entities such as large national banking companies, credit unions and mortgage companies.

The credit union was rated "Satisfactory" at the previous examination for compliance with the Community Reinvestment Act (CRA) on September 28, 1998.

Description of Assessment Area

The credit union has defined its assessment area as the towns of Grafton, Auburn, Hopkinton, Millbury, Northborough, Northbridge, Shrewsbury, Sutton, Upton, Westboro, and the southeastern section (25 census tracts) of the City of Worcester. The communities in the assessment area are in the Worcester Metropolitan Statistical Area with the exception of Upton and Hopkinton that are in the Boston Metropolitan Statistical Area.

Assessment Area Demographics

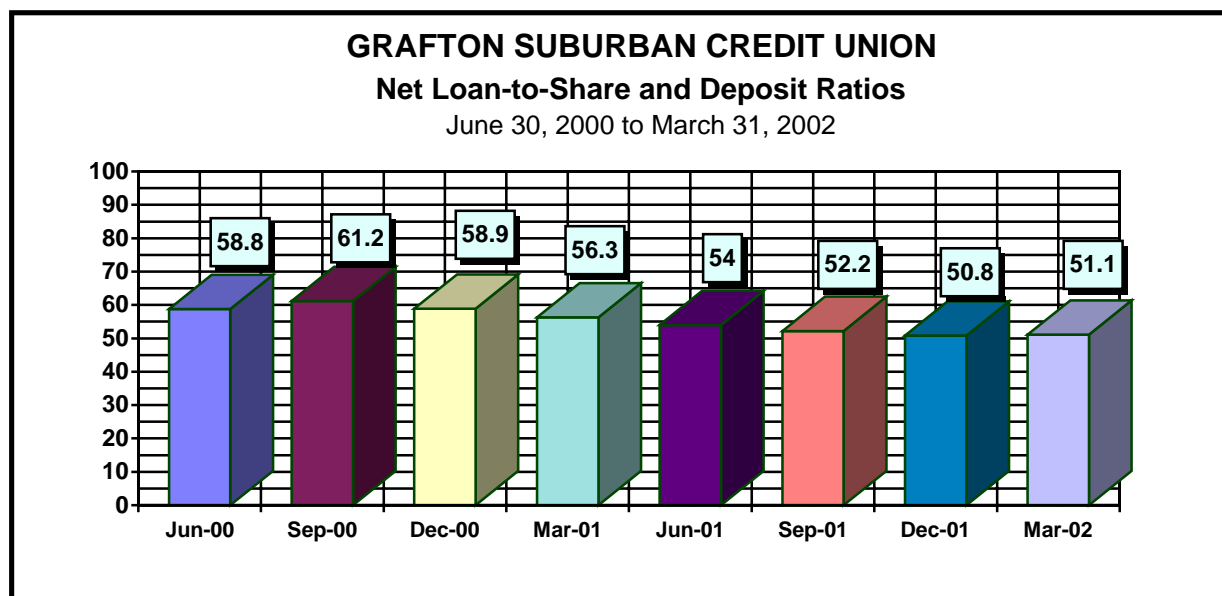
According to 1990 US Census Data, the 11 communities have a combined population of 225,821 and a total of 90,465 housing units. Of the total housing units, 45,431, or 50.2 percent are owner occupied, 38,427 or 42.5 percent are rental units, and 6,607, or 7.3 percent are vacant housing units. The average median housing value for the assessment area is \$143,312. In addition, 8,861, or 10.6 percent of the total number of households in the assessment area are living below the poverty level.

There are 54 census tracts within the credit union's assessment area. Of these, 5 are designated as low-income, 11 as moderate-income, 27 as middle-income, 9 as upper-income and 2 as NA. The 5 low-income and 11 moderate-income census tracts are all located in Worcester. It should be noted that the NA tract located in Grafton houses Tufts School of Veterinary medicine and has no housing units. The other NA census tract located in Worcester has only 5 housing units and contains the campus of Clark University. Westborough has a high-income census tract that has 36 units and also includes the campus of Westborough State Hospital.

PERFORMANCE CRITERIA

1. NET LOAN TO SHARE AND DEPOSIT ANALYSIS

A comparative analysis of Grafton Suburban Credit Union quarterly net loan-to-share and deposit ratios for the period of June 30, 2000, through March 31, 2002, was conducted during this examination. Using the credit union's NCUA 5300 quarterly reports, the average net loan-to-share and deposit ratio for this period is 55.4 percent. This ratio is based on total loans net of the allowance for loan and lease losses (ALLL) as a percentage of total shares and deposits. The following graph is provided for further analysis.



The credit union's net loans and shares and deposits for the period reviewed were compared. This comparison revealed that shares and deposits have increased by 17.7 percent, while net loans for the same period have increased by 2.2 percent. As illustrated above the overall net loan-to-share and deposit ratio has fluctuated and decreased due to the fact that share and deposit growth outpaced net loan growth.

Grafton Suburban Credit Union's average net loan to share and deposit ratio was compared to the ratios of five other area institutions with similar asset sizes. The ratios used for Grafton Suburban Credit Union and the other institutions were as of December 31, 2001. These percentages range from a low of 50.8 percent to a high of 79.1 percent. Refer to the following table.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
Marlborough Co-operative Bank	79.1%
Millbury Savings Bank	73.1%
Millbury Federal Credit Union	72.5%

Southbridge Credit Union	64.8%
Marlborough Savings Bank	64.3%
Grafton Suburban Credit Union	50.8%

Based on the above information and the credit union's capacity to lend, the capacity of other similarly-situated credit union's and banks to lend to their members or customers, the types of loans available at the credit union, and the lending opportunities available for its membership, the credit union's loan-to-share and deposit ratio is considered to meet the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA (S)

HMDA Lending

Grafton Suburban Credit Union's 2000, 2001 and year-to-date July 18, 2002, Loan Application Registers (LARs) were reviewed to determine the amount of HMDA-reportable loans originated and purchased. During this period, the credit union originated 185 loans totaling \$20.9 million. Of these loans, 143 or 77.3 percent of the number and \$15.6 million or 74.6 percent of the dollar volume were originated within the credit union's assessment area.

Grafton accounted for the largest number of originations with 46.8 percent, followed by Millbury with 15.4 percent. Grafton also accounted for the largest dollar volume of originations with 38.5 percent, followed by Millbury with 14.1 percent.

The following table details residential lending inside and outside of the assessment area.

Distribution of HMDA-Reportable Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	44	77.2	4,290	77.6	13	22.8	1,237	22.4
2001	50	75.8	5,628	70.1	16	24.2	2,399	29.9
YTD 2002	49	79.0	6,038	78.3	13	21.0	1,674	21.7
Total	143	77.3	15,596	74.6	42	22.7	5,310	25.4

Source: CRA Wiz

Consumer Lending

A review of the credit union's consumer loans for 2001 and year-to-date June 30, 2002, was also performed. The credit union granted 1,315 consumer loans for 2001 and year-to-date June 30, 2002, totaling \$29,712,718. A sample of 102 consumer loans totaling

\$1,027,000 was reviewed for distribution inside and outside of the assessment area. Seventy-three loans representing 71.6 percent of the sample were originated within the credit union's assessment area. Grafton accounted for 69.5 percent of these loans, followed by Worcester with 21.9 percent, and Millbury with 12.3 percent.

By dollar amount 71.6 percent of the dollar volume of the sample were originated within the credit union's assessment area. Grafton accounted for 42.9 percent of the dollar amount of loans, followed by Worcester with 21.5 percent and Millbury with 10.9 percent.

The following table details the sample of consumer loans inside and outside of the assessment area.

Distribution of Consumer Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2001	54	71.1	502,200	64.5	22	28.9	276,500	35.5
YTD 2002	19	73.1	182,700	73.6	7	26.9	65,600	26.4
Total	73	71.6	684,900	66.7	29	28.4	342,100	33.3

Source: Credit Union consumer loan files

Based on the above information, it is evident that a majority of the number and dollar amount of the credit union's loans has been extended within its assessment area. Therefore, the institution's lending performance meets satisfactory standards.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of HMDA reportable loans extended within the various income levels throughout the assessment area was conducted during the examination. Originations were categorized by the ratio of the applicant's reported income to the median family

income of the Worcester and Boston Metropolitan Statistical Areas (MSA). Refer to the following table for a breakdown of the estimated 2000, 2001 and 2002 HUD information.

MSA	2000	2001	2002
Worcester	\$54,400	\$57,000	\$58,400
Boston	\$65,500	\$70,000	\$74,200

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate income is defined as 50 to 79 percent of the median family income. Middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

HMDA Lending

The following table shows the number of HMDA-reportable loans granted to low, moderate, middle and upper-income borrowers, in comparison to the number of households in the assessment area in each respective income group. In addition the distribution of the credit union's loans among various borrower income levels was compared to that of all other HMDA-reporting lenders in the assessment area. The most recent data available for this comparison relates to calendar year 2000. Refer to the following table for details.

Distribution of HMDA Reportable Loans by Borrower Income										
Median Family Income Level	% Total Households	Aggregate Lending Data (% of #)	2000		2001		YTD 2002		Total	
			2000	#	%	#	%	#	%	#
Low	26.4	3.8		5	11.4	0	0.0	4	8.2	9
Moderate	15.2	13.1		3	6.8	4	8.0	10	20.4	17
Middle	19.6	21.0		10	22.7	16	32.0	8	16.3	34
Upper	38.8	40.3		26	59.1	30	60.0	26	53.1	82
N/A	-	21.8		-	-	-	-	-	2.0	1
Total	100.0	100.0	44	100.0	50	100.0	49	100.0	143	100.0

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

Grafton Suburban Credit Union extended nine loans to low-income borrowers representing 6.3 percent of the total loans originated within the assessment area. This percentage falls well below the 26.4 percent of low-income households within the assessment area. However, this can be attributed to the fact that approximately 10.6 percent of these individuals are living below the poverty level making it difficult to

generate loans to these households. In addition, the high cost associated with purchasing a home and the high number of rental units (42.5%) in the assessment area makes homeownership difficult.

Grafton Suburban Credit Union originated 17 loans to moderate-income borrowers, representing 11.9 percent of the total originations within the assessment area. This percentage also falls below the 15.2 percent of moderate-income households within the assessment area.

As shown above, Grafton Suburban Credit Union's percentage of loans to low-income borrowers exceeds that of the aggregate in 2000. The credit union originated 11.4 percent of its loans to low-income borrowers, compared to the aggregate with 3.8 percent. This distribution of lending demonstrates the credit union's willingness to lend to borrowers of all incomes including low-income borrowers. However, the credit union's level of HMDA-reportable loans to moderate-income borrowers falls below that of the aggregate. The credit union accounted for 6.8 percent as compared to 13.1 percent by the aggregate.

Consumer Lending

An analysis of consumer loans extended to borrowers of various income levels throughout the assessment area was also conducted during the examination. This review of sampled loans indicated that 24.7 percent of the loans were to low-income borrowers, and 28.7 percent were to moderate-income borrowers. The majority of consumer loans are generally to single applicants, and this was the case with most of the loans in the sample. Of the 73 loans sampled for applicant income purposes, approximately 48 or 65.8 percent relied on one applicant's income to qualify the borrower. The percentage of originations occurring in low and moderate-income levels is greater than what would be expected of residential mortgage originations, where the income is usually the result of combined incomes.

Refer to the following table for further analysis.

CONSUMER LOAN SAMPLE BY NUMBER BY INCOME OF BORROWER

% OF MEDIAN MSA INCOME	2001		YTD 2002		TOTAL	
	#	%	#	%	#	%
< 50%	12	22.2	6	31.6	18	24.7
50 – 79%	19	35.2	2	10.5	21	28.7
80 – 119%	10	18.5	6	31.6	16	21.9
120 +	13	24.1	5	26.3	18	24.7
TOTAL	54	100.0	19	100.0	73	100.0

Source: Credit Union consumer loan files

The review of the distribution of credit to borrowers of various incomes reflects a good penetration among individuals of different income levels, especially in consumer lending. Also residential loans to low-income borrowers in 2000 did exceed that of the aggregate; thus, performance in this criterion is deemed to exceed satisfactory standards.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

HMDA Lending

The table below shows the number of HMDA reportable loans in comparison to the number of owner-occupied housing units in each census tract. In addition, the credit union's HMDA reportable loans were compared to that of all other HMDA-reporters in the assessment area. Other HMDA reporters include bank and non-bank entities such as large national banking companies, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2000. Refer to the following table for details.

Distribution of HMDA Loans by Income Category of the Census Tract										
Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2000		2001		YTD 2002		Total	
			2000	#	%	#	%	#	%	#
Low	1.6	2.8	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	9.2	10.8	3	6.8	0	0.0	0	0.0	3	2.1
Middle	59.5	54.2	29	65.9	37	74.0	31	63.3	97	67.8
Upper	29.7	32.2	12	27.3	13	26.0	18	36.7	43	30.1
Total	100.0	100.0	44	100.0	50	100.0	49	100.0	143	100.0

Source: 1990 U.S. Census, HMDA LAR, and HMDA Aggregate Data

According to the above table, only 2.1 percent of the credit union's total loans for the period reviewed were originated within moderate-income census tracts. There were no loans originated in low-income census tracts. Lending activity falls well below the percentage of owner-occupied housing units in these tracts.

As shown above, the percentage of the credit union's lending in low and moderate-income census tracts is below that of aggregate for 2000. The credit union made no loans in the low-income census tracts while the aggregate made 2.8 percent. Lending activity in the moderate-income census tracts was 6.8 percent compared to the aggregate with 10.8 percent.

Consumer Lending

An analysis of the sampled consumer loans extended within the various census tracts contained within the assessment area for 2001 and year-to-date June 30, 2002, was also conducted. The credit union originated 8.2 percent in moderate-income tracts, 68.5

percent in middle-income tracts and 23.3 percent in upper-income census tracts. No loans were originated in the credit union's five low-income census tracts. Refer to the following table for additional information.

CONSUMER LOAN SAMPLE BY NUMBER CENSUS TRACT

CENSUS TRACT	2001		YTD 2002		TOTAL	
	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	6	11.1	0	0.0	6	8.2
Middle	35	64.8	15	78.9	50	68.5
Upper	13	24.1	4	21.1	17	23.3
Total	54	100.0	19	100.0	73	100.0

Source: Credit Union consumer loan files

Although the geographic distribution of loans by census tracts demonstrates an uneven dispersion, there are several reasons that fully explain the low number of loans originated in low and moderate-income tracts. The mitigating factors are that all of these tracts are located in the City of Worcester. The majority of these tracts contain less than 20 percent owner-occupied properties, no outside loan originators and the strong competition in the Worcester area.

Based on the above information the credit union's performance in this criterion is deemed to meet the standards for a satisfactory performance.

5. REVIEW OF COMPLAINTS/FAIR LENDING

No CRA related complaints have been received since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

Grafton Suburban Credit Union's staff attends in-house training programs. The credit union employs 48 individuals. The staff has developed relationships with several area organizations, which assist in its monitoring of community needs as well as informing the community of the credit services offered by the institution. The credit union's staff volunteers their time at these community organizations.

The performance levels achieved by the credit union in lending to borrowers of different income levels implies that the credit products offered and the marketing efforts are conducive to the needs of its assessment area. To insure consistency in underwriting practices, the credit union has implemented a second review practice that requires all credit applications to be reviewed by two officers with lending authority before a final denial notice is issued. A monthly review of these denials is also conducted by the credit committee.

Minority Application Flow

According to 1990 Census Data, the credit union's assessment area contained a total population of 225,821 individuals, of which 25,240 or 11.2 percent are minorities.

A review of residential loan applications was conducted in order to determine the number of applications the credit union received from minorities. From January 1, 2000, through July 18, 2002, the credit union received 185 HMDA reportable loan applications from within its assessment area. Of these, four applications representing 2.2 percent were received from minority applicants.

In 2000, aggregate data of 369 other lenders in the assessment area indicates that 9.9 percent of all applications were received from minorities. This percentage far exceeds the 3.8 percent received by the credit union during the same year.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

GRAFTON SUBURBAN CREDIT UNION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **July 2, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.